

AFFINITY WATER FINANCE PLC

**UNAUDITED HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2021**

(Registered Number 11674789)

Affinity Water Finance PLC

Contents

	Page
Interim management report	1
Condensed interim income statement	3
Condensed interim statement of financial position	4
Condensed interim statement of changes in equity	5
Notes to the condensed interim financial statements	6
Statement of directors' responsibilities	12

Affinity Water Finance PLC

Interim management report

Introduction

The company was incorporated on 13 November 2018 to substitute Affinity Water Programme Finance Limited, a fellow company of the wider group of companies headed by Daiwater Investment Limited, registered in the Cayman Islands, with a UK registered entity. The assets and liabilities of Affinity Water Programme Finance Limited were transferred to Affinity Water Finance PLC on 22 January 2019 at fair value. The company strategy going forwards will be to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited as and when required.

The assets and liabilities transferred into the company on 22 January 2019 included:

Class	Maturity	Coupon Rate	Nominal Value	Fair Value
Class A guaranteed notes	2022	3.625%	£14.204m	£15.136m
Class B RPI linked guaranteed notes	2033	3.249%	£95.000m	£152.984m
Class B RPI linked guaranteed notes	2033	1.024%	£10.000m	£12.279m
Class A guaranteed notes	2033	2.699%	£60.000m	£60.374m
Class A guaranteed notes	2036	4.500%	£250.000m	£307.888m
Class A guaranteed notes	2042	3.278%	£85.000m	£88.921m
Class A CPI linked guaranteed notes	2042	0.230%	£60.000m	£55.609m
Class A RPI linked guaranteed notes	2045	1.548%	£190.000m	£348.326m

All proceeds of the above issues (together 'the Bonds') were lent to Affinity Water Limited on the same terms.

Significant events during the period

There were no significant events during the period.

Principal risks

The company faces limited risk or uncertainty in relation to the Bonds which have a fixed coupon rate.

The company also faces limited risk or uncertainty in relation to the index-linked Bonds as the exposure to movement in RPI and CPI is ultimately borne by Affinity Water Limited.

Interest rates earned on the company's financial assets are matched against those of the company's financial liabilities. Accordingly, these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

Affinity Water Limited, and the wider group of companies headed by Daiwater Investment Limited, are responsible for the financing strategy and treasury policies of the company. The aim of this strategy is to assess the on-going capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

Surplus funds are invested based upon forecast cash requirements in accordance with the company's treasury policy.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; the former should be read in conjunction with the company's financial statements for the year ended 31 March 2021 (in particular the strategic report, as well as note 12 to the 31 March 2021 financial statements).

The principal risks and uncertainties remain unchanged from those reported as at 31 March 2021. The Board anticipates that these will remain unchanged for the remaining six months of the financial year.

Affinity Water Finance PLC

Interim management report

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities, and support of the company's immediate parent undertaking.

Related parties

Details of significant related party transactions can be found in note 8 to the condensed interim financial statements. There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of the company.

Forward-looking statements

Certain statements in this interim management report are forward-looking. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Affinity Water Finance PLC

Condensed interim income statement for the six months ended 30 September 2021

	Note	30 September 2021 £000 Unaudited	30 September 2020 £000 Unaudited
Operating result			-
Finance income	5	21,404	11,728
Finance costs	5	(21,400)	(11,724)
Profit before income tax		4	4
Income tax expense		(1)	(1)
Profit for the period		3	3

All profits of the company in the current period and prior period are from continuing operations.

The company has no recognised gains or losses other than the results above; therefore a statement of comprehensive income has not been presented.

The notes on pages 6 to 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance PLC

Condensed interim statement of financial position as at 30 September 2021

	Note	30 September 2021 £000	31 March 2021 £000
		Unaudited	Audited
Current assets			
Amounts owed by group undertaking falling due after more than one year	6	1,084,995	1,078,956
Amounts owed by group undertaking falling due within one year		22,840	19,332
Cash and cash equivalents		50	50
		1,107,885	1,098,338
Creditors - amounts falling due within one year		(22,823)	(19,318)
Net current assets		1,085,062	1,079,020
Total assets less current liabilities		1,085,062	1,079,020
Creditors - amounts falling due after more than one year	7	(1,084,995)	(1,078,956)
Net assets		67	64
Equity			
Called-up share capital		50	50
Retained earnings		17	14
Total shareholder's funds		67	64

The notes on pages 6 to 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance PLC

Condensed interim statement of changes in equity for the six months ended 30 September 2021

	Share capital £000	Retained earnings £000	Total equity £000
	Unaudited	Unaudited	Unaudited
Balance as at 1 April 2021	50	14	64
Profit for the period	-	3	3
Balance as at 30 September 2021	50	17	67
Balance as at 1 April 2020	50	8	58
Profit for the period	-	3	3
Balance as at 30 September 2020	50	11	61

The notes on pages 6 to 11 are an integral part of these condensed interim financial statements.

Affinity Water Finance PLC

Notes to the condensed interim financial statements

1. General information

The sole activity of Affinity Water Finance PLC ('the company') is to raise finance on behalf of its immediate parent undertaking, Affinity Water Limited.

The company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 10 for details of the company's ultimate parent.

These condensed interim financial statements were approved for issue on 25 November 2021.

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2021 were approved by the Board of directors on 28 June 2021 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter and did not contain any statement under section 498 of the Companies Act 2006.

These condensed interim financial statements have not been reviewed or audited by the independent auditor.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below.

2.1 Basis of preparation

These condensed interim financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 104: 'Interim financial reporting' ('FRS 104') as issued by the Financial Reporting Council, adopting the recognition and measurement requirements of International Financial Reporting Standards ('IFRS').

The company prepared its financial statements for the year ended 31 March 2021 in compliance with the requirements of Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101').

Under FRS 101, the company applies the recognition and measurement requirements of IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The condensed interim financial statements should be read in accordance with the company's financial statements for the year ended 31 March 2021.

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2021. No new standards became applicable for the current reporting period that have a material impact on the company.

Affinity Water Finance PLC

Notes to the condensed interim financial statements (continued)

2. Summary of significant accounting policies (continued)

2.2 Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed interim financial statements. This is based on assessment of the principal risks of the company and consideration of the company's budgeted cash flows, long term forecasts and related assumptions, as well as available debt facilities. Furthermore, the Bonds are guaranteed by Affinity Water Limited and Affinity Water Holdings Limited, the company's immediate parent undertaking and intermediate holding company respectively.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of loans receivable

Determining whether the company's loans receivable from Affinity Water Limited is impaired requires consideration of factors including Affinity Water Limited's credit rating and ability to generate positive cash flows from its operating activities going forward. The carrying amount of the loans receivable at the date of the statement of financial position was £1,084,995,000 (31 March 2021: £1,078,956,000) with no impairment losses recognised in the six month period ended 30 September 2021 (refer to note 6) (2020: £nil). A 1% chance of default would result in an impairment loss of £10,850,000 (31 March 2021: £10,790,000).

Management conclude that the global health pandemic has not had a significant impact on Affinity Water Limited's ability to repay the debt during the period and at the reporting date.

Affinity Water Finance PLC

Notes to the condensed interim financial statements (continued)

4. Financial risk management and financial instruments

The company's activities primarily expose it to liquidity risk. Interest rates earned on the company's financial assets are matched against those of the company's financial liabilities. Accordingly, these assets and liabilities act as a natural hedge for each other, and the company has no net exposure to movements in interest rates.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; the former should be read in conjunction with the company's financial statements for the year ended 31 March 2021 (refer to note 12 to the financial statements).

There have been no changes in any risk management policies since 31 March 2021.

Fair value of financial assets and liabilities measured at amortised cost

Between 1 April 2021 and 30 September 2021, market interest rates increased, decreasing the fair value of the company's Bond and related loan receivable as follows:

	30 September 2021 £000 Unaudited	31 March 2021 £000 Audited
Non-current	1,150,379	1,179,097

The remaining financial assets and liabilities of the company approximate to their carrying amount.

Affinity Water Finance PLC

Notes to the condensed interim financial statements (continued)

5. Finance income and costs

	Six months ended 30 September 2021 £000 Unaudited	Six months ended 30 September 2020 £000 Unaudited
Finance income		
Interest income on loan to parent company	21,400	11,724
Other finance income	4	4
Total interest income on financial assets	<u>21,404</u>	<u>11,728</u>
Total finance income	<u>21,404</u>	<u>11,728</u>
Finance costs		
Interest expense on bonds	15,361	15,415
Indexation	14,388	4,832
Amortisation of bond issue costs and amortisation of fair value adjustments	(8,349)	(8,523)
Total interest expense on financial liabilities	<u>21,400</u>	<u>11,724</u>
Total finance costs	<u>21,400</u>	<u>11,724</u>
Net finance income		
Finance income	21,404	11,728
Finance costs	(21,400)	(11,724)
Net finance income	<u>4</u>	<u>4</u>

Affinity Water Finance PLC

Notes to the condensed interim financial statements (continued)

6. Amounts owed by group undertaking falling due after more than one year

	30 September 2021 £000	31 March 2021 £000
	Unaudited	Audited
Amounts owed by parent company	1,084,995	1,078,956

No provision for impairment has been recognised at 30 September 2021 (31 March 2021: £nil).

7. Creditors – amounts falling due after more than one year

	30 September 2021 £000	31 March 2021 £000
	Unaudited	Audited
3.625% Class A guaranteed notes due 2022*	14,419	14,528
3.249% Class B RPI linked guaranteed notes due 2033	162,066	160,164
1.024% Class B RPI linked guaranteed notes due 2033*	13,444	13,105
2.699% Class A guaranteed notes due 2033*	59,941	59,941
4.500% Class A guaranteed notes due 2036*	295,050	296,791
3.278% Class A guaranteed notes due 2042*	98,379	98,644
0.230% Class A CPI linked guaranteed notes due 2042*	59,904	58,479
1.548% Class A RPI linked guaranteed notes due 2045*	381,792	377,304
	1,084,995	1,078,956

* Listed on the London Stock Exchange

8. Related party transactions

Interest payments totalling £11,858,000 were received from Affinity Water Limited (£882,000 in May 2021, £3,700,000 in June 2021, £1,393,000 in August 2021 and £5,883,000 in September 2021) in relation to a loan from the company of the issue proceeds of the Bond.

There are no other significant related party transactions which require disclosure.

9. Events after the reporting period

In October 2021, the company issued its first green bond with a nominal amount of £130,000,000 and total proceeds of £147,762,000, which will be used to fund projects which are fundamental to Affinity Water Limited's Sustainability Strategy and will support its environmental objectives.

Affinity Water Finance PLC

Notes to the condensed interim financial statements (continued)

10. Ultimate parent company and controlling party

The immediate parent undertaking of the company is Affinity Water Limited, a company registered in England and Wales.

Affinity Water Limited is wholly owned by Daiwater Investment Limited, a company registered in England and Wales. Daiwater Investment Limited is the parent undertaking of the largest group to consolidate the statutory financial statements of the company. These financial statements are also consolidated in the financial statements of Affinity Water Holdco Finance Limited, the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Daiwater Investment Limited and Affinity Water Holdco Finance Limited for the period ended 31 March 2020 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom. The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments.

Affinity Water Finance PLC

Statement of directors' responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with FRS 104 as issued by the Financial Reporting Council, adopting the recognition and measurement requirements of IFRS, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Affinity Water Finance PLC are listed in the company's annual report and financial statements for the year ended 31 March 2021, with the exception that Jaroslava Korpanec resigned as a director on 1 July 2021 and Roxana Tataru was appointed on 1 July 2021. Pauline Walsh also resigned as a director on 17 September 2021.

The half-yearly financial report has not been reviewed or audited by the independent auditor.

By order of the Board

Stuart Ledger

Director

25 November 2021